

PBE Conceptual Framework Update

Proposed Amendments to Chapters 3 and 5

Consultation document



March 2024

Consultation closes 21 June 2024



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PART ONE: Introduction



1.



What is this consultation document about?

The External Reporting Board (XRB) has issued this consultation document to seek feedback on its [Exposure Draft](#) that proposes limited-scope updates to the *Public Benefit Entities Conceptual Framework* (PBE Conceptual Framework), based on recent updates issued by the International Public Sector Accounting Standards Board (IPSASB). This update will amend Chapter 3 *Qualitative Characteristics* and Chapter 5 *Elements in General Purpose Financial Reports*.

What is the PBE Conceptual Framework?

- It defines and provides guidance on key elements of the financial report, such as assets and liabilities. It also explains key concepts that form the cornerstone of financial reporting, including the 'qualitative characteristics' of useful information (e.g. relevance, faithful representation), the importance of considering materiality, etc.
- The NZASB uses it in developing PBE Standards, which are applied by Tier 1 and Tier 2 public benefit entities (PBEs) in the public and not-for-profit sectors. It is also considered in developing requirements for Tier 3 PBEs.
- It is not a Standard, but PBEs in Tiers 1, 2 and 3 may need to refer to it in certain situations when preparing financial reports – for example, when dealing with a transaction that is not specifically covered by a Standard.
- It is closely based on the IPSASB Conceptual Framework.

What is changing and why?

In 2023, the IPSASB issued limited-scope updates to Chapters 3 and 5 of its Conceptual Framework.

The amendments arose from the following developments since the IPSASB Conceptual Framework was approved in 2014:

- (a) the IPSASB's experience in applying the Conceptual Framework to the development and maintenance of IPSAS; and
- (b) developments in international thinking about conceptual matters – specifically, the IASB's updates to its Conceptual Framework in 2018.

The XRB considers that incorporating the IPSASB's updates into the PBE Conceptual Framework would be useful for PBEs in New Zealand.

The following is a brief overview of the proposed amendments to the PBE Conceptual Framework.

Chapter 3 *Qualitative Characteristics*

Clarification of the role of prudence in the context of faithful representation, and an update to the guidance on materiality to address the risk that material information can be obscured.

Chapter 5 *Elements in General Purpose Financial Reports*

Changes to the definitions of an asset and a liability and the related guidance, including new guidance on a transfer of resources, unit of account and binding arrangements that are equally unperformed.



2.

How to provide feedback?

Responding to consultation questions

We are seeking comments on the questions below. We will consider all comments received before finalising the updates to the PBE Conceptual Framework.

- Q1.** Do you agree with the proposed amendments to Chapter 3?
If not, why not?
- Q2.** Do you agree with the proposed amendments to Chapter 5?
If not, why not?
- Q3.** Do you agree with the proposed amendments to the Basis for Conclusions of the PBE Conceptual Framework?
If not, why not?
- Q4.** Do you agree with the mandatory date of 1 January 2028?
If not, why not?
- Q5.** Do you have any other feedback on the ED proposals?

Figure 1: Timeline



Making a submission

You can provide feedback to us via:

- the [consultation page](#) on our website (where you can upload a PDF or complete an online form); or
- emailing your formal or informal comments to accounting@xrb.govt.nz

The consultation closes on **21 June 2024**

Publication of submissions, the Official Information Act and the Privacy Act

We intend on publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the XRB website. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 2020 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so.

PART TWO: Overview of proposals



3.

Overview of the proposed amendments

In this section, we highlight the key changes and those areas where we are particularly interested in your feedback. This section is organised as follows.

3.1 Approach to amending the PBE Conceptual Framework

3.2 Changes to Chapter 3 *Qualitative Characteristics*;

3.3 Changes to Chapter 5 *Elements of Financial Statements*; and

3.4 Enhanced guidance on recognition in the Basis for Conclusions

3.1 Approach to amending the PBE Conceptual Framework

The proposed amendments to the PBE Conceptual Framework are closely based on the 2023 updates to Chapters 3 and 5 of the IPSASB Conceptual Framework.

In amending the PBE Conceptual Framework based on the updates to the IPSASB Conceptual Framework, the NZASB has considered the need for any enhancements to make the standard more appropriate for public benefit entities in New Zealand.

The NZASB made no substantive changes to the IPSASB's Conceptual Framework amendments, but added paragraphs to the in the NZASB Basis for Conclusions – see section 3.4 of this document.

The PBE Conceptual Framework does not override the requirements of PBE Standards. Its main purpose is to:

- assist the NZASB to develop standards that are based on consistent concepts; and
- assist preparers of financial reports – for example, to develop consistent accounting policies when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy



3.2 Changes to Chapter 3 *Qualitative Characteristics*

AT A GLANCE

- Inclusion of new guidance which explains the role of prudence
- Update to the guidance on materiality which better serves the users of financial information.

	Amendments
Prudence [ED ref: Para 3.14A–3.14B]	<p>The amendments clarify the role of prudence in supporting neutrality, which is an aspect of faithful representation. The amendments note the following.</p> <ul style="list-style-type: none"> • Prudence is the exercise of caution when making judgements under conditions of uncertainty. Exercising prudence means that assets, liabilities, revenue, and expenses are not overstated or understated. • The exercise of prudence does not imply a need for asymmetry (e.g. systematically requiring more evidence for recognising assets or revenue as compared to liabilities and expenses). However, some standards may include asymmetric requirements.
Materiality [ED ref: Para 3.32 and 3.33A]	<p>The amendments update the guidance on materiality by adding a reference to the obscuring of information. That is, information is material if omitting, misstating <i>or obscuring</i> it could be reasonably expected to influence the discharge of accountability by the entity or the decisions made by users of the financial statements.</p>

These proposed PBE Conceptual Framework Chapter 3 amendments are aligned with the IPSASB's and IASB's Conceptual Framework.

Question 1:

Do you agree with the proposed amendments to Chapter 3? If not, why not?



3.3 Changes to Chapter 5 *Elements of General Purpose Financial Reports*

AT A GLANCE

- Minor changes to the definitions of an asset and a liability and amendments to the related guidance, including new guidance on transfer of resources.
- New guidance on unit of account and binding arrangements that are equally unperformed.

	Amendments
<p>Definition of an asset and related guidance</p> <p>[ED ref: para 5.6–5.13]</p>	<ul style="list-style-type: none"> • Amendments to the description of and guidance on a resource, which is an element of the definition of an asset – taking a rights-based approach, as aligned with the IPSASB and IASB Conceptual Frameworks. • Current description of ‘resource’: “an <i>item</i> with service potential or the ability to generate economic benefits” – and the related guidance discusses benefits from the <i>resource itself</i> vs benefits from <i>rights to use the resource</i>. • Proposed <u>new</u> description of ‘resource’: “a <i>right to either service potential or the capability to generate economic benefits, or a right to both</i>”. • Change reflects the view that rights from owning an item and rights to use an item are both type of rights, not separate phenomena. • In the definition of an asset and a liability, ‘past event’ (singular) is replaced with ‘past events’ (plural) – as an asset/liability may arise from a single past event of multiple past events.
<p>Definition of a liability and related guidance</p> <p>[ED ref: para 5.14–5.26]</p>	<ul style="list-style-type: none"> • Updates the definition of a liability and the related guidance, to use the term ‘transfer of resources’ instead of ‘outflow of resources’. This aligns with the IPSASB’s and IASB’s Conceptual Framework amendments. <ul style="list-style-type: none"> • New definition: “A present obligation of the entity <u>to transfer</u> resources as a result of past events.” • New guidance on the concept of ‘transfer of resources’ – more extensive than the previous guidance on ‘outflow of resources’. • Rearrangement of the liabilities section in Chapter 5, so the order of topics aligns with the updated definition.
<p>Unit of account</p> <p>[ED ref: para 5.26A–5.26H]</p>	<p>New guidance on the ‘unit of account’, which is the unit to which recognition criteria and measurement concepts are applied. This aligns with the IPSASB’s and IASB’s Conceptual Framework amendments.</p>
<p>Binding arrangements that are equally unperformed</p> <p>[ED ref: para 5.26I–5.26J]</p>	<p>New guidance on ‘binding arrangements that are equally unperformed’, which is based on the IASB’s Conceptual Framework guidance on executory contracts. The guidance applies when neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent.</p>

Question 2:

Do you agree with the proposed amendments to Chapter 5? If not, why not?



3.4 Enhanced guidance on recognition in the Basis for Conclusions

The IPSASB's updates to Chapter 5 include new paragraphs emphasising that the definition of a liability can be met even when the probability of a transfer of resources is low. This is to help distinguish between determining whether the *definition* of a liability is met – and then considering whether the liability should be *recognised* in the financial report (where probability would be considered).



The guidance on recognition in the IASB's Conceptual Framework includes specific sections on considering relevance and faithful representation when determining whether a liability (or an asset) is recognised – including a specific discussion on low probability of outflow of resources, as well as a discussion on existence uncertainty. This guidance is not included in the IPSASB Conceptual Framework or in the PBE Conceptual Framework.



The NZASB considered the guidance on recognition of liabilities and assets from the IASB's Conceptual Framework. The NZASB's discussion of this topic, together with the extracts of the IASB guidance they considered the most relevant, is included in the Basis for Conclusions of the PBE Conceptual Framework**. The purpose of including this in the Basis for Conclusions is to:

- ✓ Indicate to PBEs dealing with transactions that are not specifically addressed by individual PBE Standards that it may be relevant and useful to refer to the enhanced IASB guidance on recognition in conjunction with the 'core text' of the PBE Conceptual Framework – which should provide greater clarity to such PBEs as to whether a liability should be recognised or not when the probability of a transfer of resources is low.
- ✓ Indicate that for PBEs, decisions about recognition work similarly to for-profit entities.

[[ED](#) ref: Basis for Conclusions – para BC17E-BC17M]

** For more information on how we selected which IASB paragraphs to include, please see the [NZASB February 2024 meeting papers](#), Agenda Item 3.1, Appendix 1 (pages 13–19).

The IASB guidance on recognition is discussed in the Basis for Conclusions, rather than incorporated into the core text of the PBE Conceptual Framework, to maintain the coherence of the IPSASB-based core text and to avoid unintended consequences.

Question 3:

Do you agree with the proposed amendments to the Basis for Conclusions of the PBE Conceptual Framework? If not, why not?



4.

Mandatory date and other comments

Proposed mandatory date – 1 January 2028

- We propose that the amendments to the PBE Conceptual Framework have a mandatory date of 1 January 2028, meaning that they would have to be applied for accounting periods that begin on or after that date.
- Application would be permitted for accounting periods that begin before 1 January 2028 but do not end before the amendments take effect (which is 28 days after the final amendments are issued).

Rationale for the proposed mandatory date

This date is aligned with the expected mandatory date of the forthcoming PBE Standards on Revenue and Transfer Expenses, which are currently under development. Aligning the mandatory dates is intended to allow PBEs to consider the amendments to the PBE Conceptual Framework together with the requirements in the forthcoming Revenue and Transfer Expenses standards in a holistic manner.

Question 4:

Do you agree with the mandatory date of 1 January 2028? If not, why not?

Question 5:

Do you have any other feedback on the ED proposals?

